

Economics Group

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Income & Spending Both Gained in August

Cash for clunkers sent consumers to auto dealerships en masse and spending increased 1.3 percent, the biggest jump in eight years. We expect a large portion of the gain to be reversed in September.

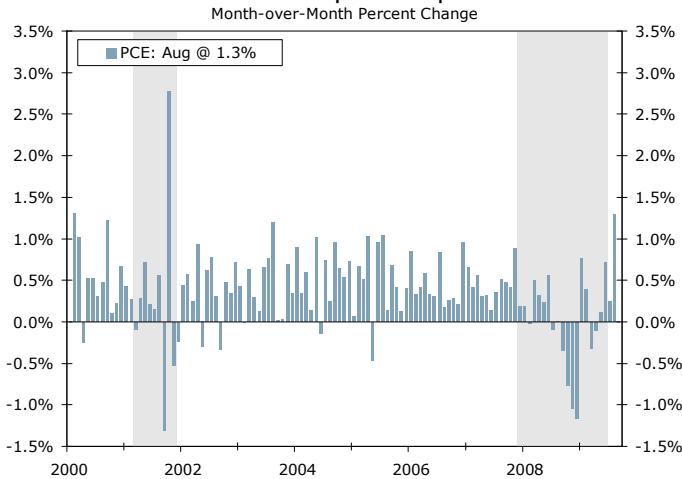
Spending up on Cash for Clunkers

- Spending jumped sharply as consumers rushed to take advantage of the cash for clunkers program. Spending was up 1.3 percent. Consequently, we are looking for a spike in third quarter real consumption and GDP. Payback is likely in Q4.
- Inflation remains a non-issue; the core deflator rose 0.1 percent on the month and is up just 1.3 percent over the past year. The Fed remains accommodative in the near-term.

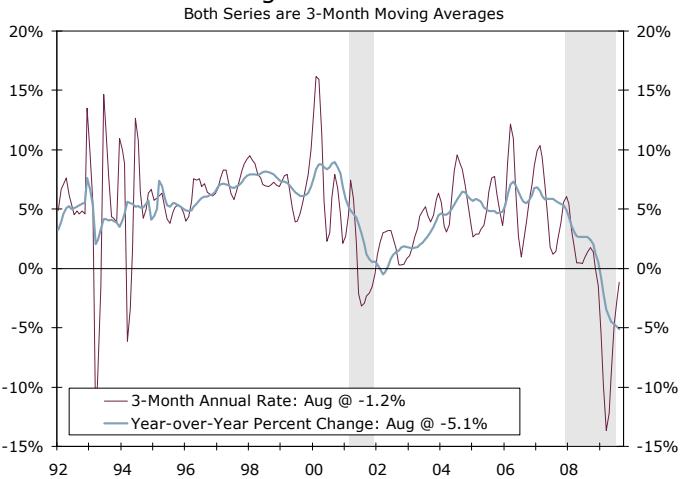
Income Showed Small Gain

- Income rose 0.2 percent for the second straight month after a positive revision to the July data. Wage & salary gains at service providers and government entities were enough to offset losses in manufacturing. However, the labor market remains weak.
- The personal saving rate dropped sharply as consumers spent on new cars. We expect this drop to reverse in September and the saving rate will likely move higher on trend into next year.

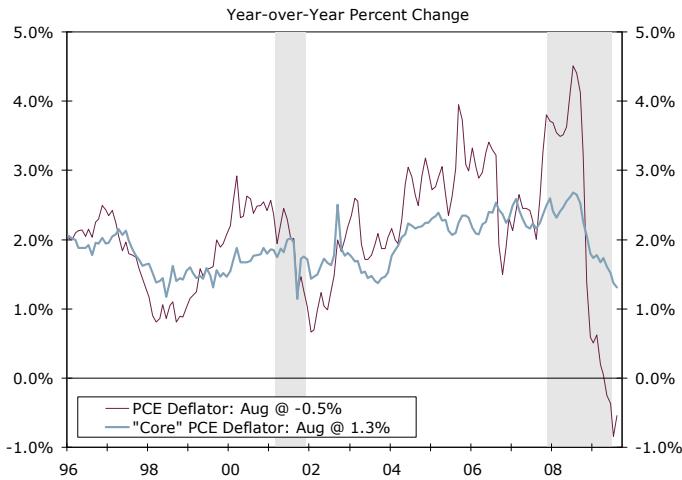
Personal Consumption Expenditures



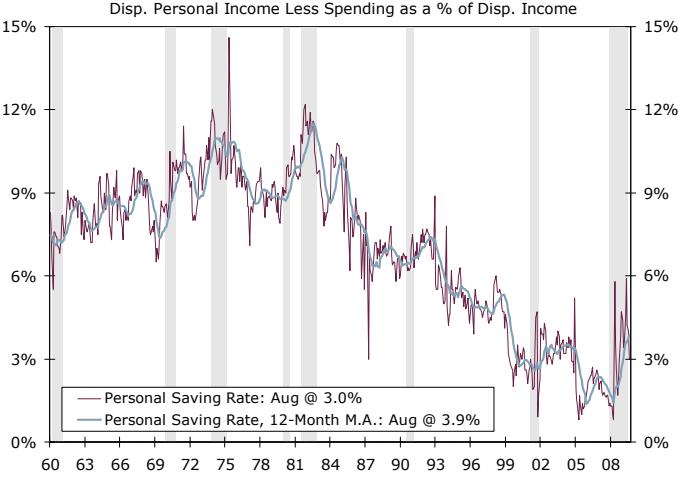
Wages and Salaries



PCE Deflator vs. "Core" PCE Deflator



Personal Saving Rate



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